

# **EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**

## **MINUTES OF THE JANUARY 20, 2010 PENSION BOARD MEETING**

### Call to Order

Chairman Dr. Dean Roepke called the meeting to order at 8:45 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

### Roll Call

#### Members Present:

Linda Bedford (Vice Chair)  
Keith Garland  
Mickey Maier  
Jeffrey Mawicke  
Marilyn Mayr  
Dr. Sarah Peck  
Dr. Dean Roepke (Chairman)  
Guy Stuller

#### Members Excused:

Donald Cohen

#### Others Present:

William Domina, Corporation Counsel  
David Arena, Director of Employee Benefits, Department of Administrative Services  
Mark Grady, Principal Assistant Corporation Counsel  
Gerald Schroeder, ERS Manager  
Dale Yerkes, Assistant Fiscal Officer  
Monique Taylor, ERS Clerical Specialist  
Neel Eswara, ERS Pension Information System Technician  
Bess Frank, Ad Hoc Oversight Committee  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Leigh Riley, Foley & Lardner LLP  
Brian Wrubel, Marquette Associates, Inc.  
Ray Caprio, Marquette Associates, Inc.  
James D. Hamel, Artisan Partners  
David J. Heiny, Artisan Partners  
Ken Loeffel, Retiree  
Yvonne Mahoney, Retiree

1. Chairman's Report

The Chairman discussed the draft annual meeting agenda. He noted his opening remarks would be followed by a report by the Benefits Director. He stated that Marquette Associates will present the ERS fund 2009 results and the asset allocation strategy. The ERS actuary, Larry Langer, and GMO will also make presentations. In response to concerns about the annual meeting, Ms. Mayr stated that the Pension Board members serve the retirees by taking care of their money.

The Chairman introduced Mr. Eswara, who is an ERS Pension Information System Technician. The Chairman noted that Mr. Eswara will be responsible for updating and maintenance of the V-3 system.

2. Minutes of the December 16, 2009 Pension Board Meeting

The Pension Board reviewed the minutes of the December 16, 2009 Pension Board meeting. Mr. Maier proposed a revision to the minutes.

**The Pension Board unanimously approved the minutes of the December 16, 2009 Pension Board meeting after changing the first sentence of the third full paragraph on page 9 (section 6(b)) to read as follows: "Mr. Caprio stated that Marquette received six proposals for passive indexing managers on a combined relationship with core fixed income and large cap core equity and the proposed fees are significantly lower than the current fee paid by ERS." Motion by Ms. Bedford, seconded by Ms. Mayr.**

3. Reports of ERS Manager and Assistant Fiscal Officer

(a) Retirements Granted, December

Mr. Schroeder presented the Retirements Granted Report for December 2009. He reported that 19 retirements were granted in December with a monthly payment amount totaling \$22,631. He noted that six retirees elected backDROPs, in amounts totaling \$942,893.

(b) ERS Monthly Activities Report, December

Mr. Schroeder indicated that there were 7,315 ERS retirees at the end of 2009.

Mr. Schroeder distributed a pie chart showing the demographics of ERS retirees in 2010. He stated that 35% of retirees are over age 75. He reported that 36% of retirees have a monthly payment of less than \$1,000.

He noted that 42% of retirees have selected the maximum monthly payment form of benefit.

Mr. Schroeder also discussed the upcoming Pension Board member two-candidate election. He provided a time line for the election. Mr. Schroeder stated that there will be a marketing blitz describing why voting is so important to members. He stated that he hopes to increase the percentage of members voting from 10% to 25% or higher. A blast e-mail with voting instructions and a final election notice will be sent to all departments. He indicated that there would be an expanded four-day voting period for the election. All eligible employees may vote online from any computer or via telephone. He stated these measures were implemented to maximize voter participation.

Mr. Schroeder discussed recruiting a replacement for Gordon Mueller, Fiscal Officer. He stated he hopes to post the Fiscal Officer position in February 2010, conduct interviews in April and hire a replacement in May. He noted the Fiscal Officer position cannot be filled until May because Gordon Mueller is being paid out until May.

Mr. Schroeder then discussed the audit scheduled for April 2010. He stated that three auditors will audit 60 files. He noted the two special thrusts of the 2010 audit will be to review the V-3 system and the investment portfolio.

Mr. Schroeder described aspects of the V-3 system. He indicated that he is responsible for budgets, contracts and overall direction of the V-3 program. He stated that Annette Olson will be the V-3 coordinator who will lead the core V-3 project team. He noted that Ms. Olson will be responsible for execution, operations and processing issues. He reported that ERS will attempt to handle any problems internally. He noted that there will be a Vitech help desk to solve problems ERS cannot handle internally. He reported ERS will have weekly teleconferences with Vitech.

Mr. Schroeder indicated that he is pursuing a change order to update the V-3 system in response to the recent County Board resolution changing the multiplier to 1.6 and the retirement age to 64 effective January 1, 2010. He stated the early cost estimate for the changes is \$100,000. He noted the cost is high because making one change affects many other areas of the system. He stated that there is currently \$300,000 in the budget for changes to the V-3 system. Because unions may negotiate a variety of multipliers other than 1.6, he asked Vitech to construct a table with different multipliers to account for the possibility of different multipliers for different unions.

Mr. Arena stated that if a majority of the collective bargaining units settle for a multiplier other than 1.6 (*e.g.*, 1.8), the County Board can replace the 1.6 multiplier for nonrepresented employees (*e.g.*, with 1.8). He indicated ERS is trying to anticipate the possibility of different multipliers through the table process discussed by Mr. Schroeder. He stated that tables will provide for more agility and flexibility and help avoid future expenses.

(c) Annual Audit and Actuarial Timeline

Mr. Yerkes discussed the annual report timeline. Buck Consultants will present the preliminary January 1, 2010 actuarial report to the Pension Board at the April 2010 meeting. At the May meeting, Buck will present the final actuarial report, the actual County contribution to ERS for the prior year and the budgeted County contribution to ERS.

(d) Cash Flow Report

Mr. Yerkes presented ERS's cash flow report. As he reported last month, ERS will need \$10 million in January, \$5 million in February and \$5 million in March. Marquette Associates will decide where to draw \$10 million for the January cash flow.

Mr. Yerkes noted that the County contribution is now spread over six months. He reported that the County must pay another \$140,000 to complete its contributions. In response to a question from Mr. Loeffel, Mr. Yerkes stated that the total County contribution this year is \$31,646,905.

4. Investments

(a) Investment Manager Report-Artisan Partners

James D. Hamel and David J. Heiny from Artisan Partners Limited Partnership distributed a report. Mr. Heiny stated that Artisan Partners manages two portfolios for ERS: a mid cap growth portfolio and a mid cap value portfolio. He indicated that Artisan will focus on the mid cap growth portfolio.

Mr. Heiny noted that Artisan Partners continues to be very stable with \$46.7 billion of total assets under management as of December 31, 2009. He also indicated Artisan had \$3 billion in positive cash flows from existing client and new client investments. He commented that most of the 200 plus Artisan employees are in Milwaukee. Mr. Heiny also noted that Artisan is launching a global equity strategy in the first part of the year to meet the global needs of its clients. He commented that the former Chief Operating Officer is now the CEO. The Chairman noted that he received a

letter to the Pension Board regarding the announced changes at Artisan. Mr. Hamel stated that the U.S. growth investment team is very strong.

Mr. Heiny then discussed the performance summary. He stated that the way Artisan Partners delivers performance is to participate in the upside when markets grow and avoid capital losses when markets contract. He noted that the market started negatively in 2009. He indicated that contributing as markets rose resulted in the performance shown. He stated that the one-year annual return for ERS for the year ended December 31, 2009 was 51.87% gross of fees and is 4.45% gross of fees since inception as of December 31, 2009. He indicated that the market value of the ERS fund at inception was \$30 million and now is almost \$46 million.

Mr. Hamel reported that the positive results for the year ended December 31, 2009 came from consumer discretionary, health care, and information technology. He noted that there are many innovative companies in the health care market trying to exploit the inefficiencies in health care. Mr. Hamel commented that Artisan targets well positioned companies, such as health care information technology systems. He reported that technology is a large portion, health care is a reasonably large portion and consumer is a large portion of ERS' mid cap growth portfolio. He reported that growth investing dramatically outperformed value investing in 2009.

(b) Marquette Associates, Inc. Report

Brian Wrubel and Ray Caprio from Marquette Associates, Inc. distributed ERS's monthly report. Mr. Wrubel described the fixed income market environment. He noted that corporate bonds saw a flight to quality in 2008. However, in 2009, he stated that there were huge yields on higher risk bonds. He reported that these yields included: investment grade credit up 18.7%, BBB credit up 27.2%, asset backed securities up 24.7%, commercial mortgage backed securities up 28.5%, corporate high yield bonds up 58.2% and CCC credit up 90.7%. He noted that investors can experience great volatility with bonds.

Mr. Wrubel reported that bond yields are composed of income and price appreciation. He explained that most of the return comes from income over the long term. He stated that price appreciation is less important over the long term despite the recent short term volatility in the market.

In response to a question from Dr. Peck, Mr. Wrubel noted that the price appreciation portion is greater with lower quality bonds.

Mr. Wrubel discussed the U.S. equities market environment. He noted that the S&P 500 finished 2009 up 26.5%. He reported that the market hit a low around March 9, 2009. He stated that the market rose about 65% since March 9, 2009. He also reported that the international equity market was up 42% in 2009, compared to 26% in the U.S. equities markets. He noted that much of the international equity market return came from the small cap emerging markets international stocks.

Mr. Wrubel reported on the hedge fund market environment. He noted that hedged equity was up about 13% in 2009. He stated that over the past ten years, the hedged equity market has seen almost a 5% return, which can mitigate some market losses.

Mr. Wrubel stated that the commercial real estate market is down about 30% for 2009. He also indicated that now is an excellent time to carefully enter the commercial real estate market. In response to a question from the Chairman, he noted that he would start looking at real estate managers, but Marquette did not plan to invest ERS funds in the real estate market until late 2010 or early 2011. He noted that he suggests ERS slowly enter the real estate market. In response to a question from the Chairman, Mr. Wrubel stated that the funds for ERS's commercial real estate investments would come from REITs and fixed income, which have similar characteristics to the real estate investments contemplated. In response to a question from the Chairman, Mr. Wrubel indicated that ERS's investments in REITs would decline as ERS's investments in the real estate sector increase.

Mr. Wrubel discussed ERS's market value and asset allocation. He noted that ERS's portfolio is up to about \$1.8 billion and is a bit over the asset allocation targets in fixed income.

Mr. Wrubel commented that there have been significant changes to ERS's portfolio over the past year. He stated that Marquette Associates has a strategy for each of the asset allocation changes it proposes. Mr. Wrubel then reported on the total fund composite and noted that the fund had an overall preliminary and unaudited return of 18.6% for 2009. He commented that fixed income is up 15.4% compared to 5.9% for the index and that ERS's fixed income return is at 7.6% for the 10-year average. He pointed out that ERS's U.S. domestic equity portfolio is up 32% in 2009, compared to 28% for the Wilshire 5000 index. Similarly, ERS has outperformed the benchmark over the past ten years. Mr. Caprio noted that it is profound and beneficial that ERS outperformed the broad benchmarks in domestic equities for 2009 because of the changes to ERS's portfolio in

that area in 2009. Mr. Wrubel commented that ERS's total international equity composite was a little behind the benchmark for 2009, well below the benchmark for the 7-year period, but above the benchmark for the 10-year period.

Mr. Wrubel then discussed individual manager performance. He noted that Artisan outperformed the benchmarks. He stated that Marquette will hold off on its recommendation for GMO.

Mr. Wrubel indicated that ERS benefited from recoveries in the equity and bond markets and avoided the real estate market decline.

Mr. Caprio discussed the Loomis core fixed income liquidation strategy. He reminded the Pension Board that it approved funding the JP Morgan portfolio at a rate of \$20 million per month from Loomis core fixed income. However, because JP Morgan is close to its target, he recommended that future \$20 million reductions from the Loomis high yield portfolio go into the Mellon aggregate fixed income index fund instead. He noted that a by-product of liquidating \$20 million per month out of the Loomis portfolios is that it will cause the managers during the divestment process to deviate from the investment guidelines of ERS's Statement of Investment Policy because the average credit quality will fluctuate away from the targets. The Chairman noted that Loomis sent a notice describing this issue and Corporation Counsel and Marquette advised permitting the deviation. The Chairman and Dr. Peck suggested the Pension Board revisit this issue monthly as long as it persists. Mr. Garland commented that this is the first time he had heard about this issue. He indicated he would prefer this issue be raised with the Pension Board before the meeting. Mr. Grady stated that this issue had just arisen within the last week, and Marquette stated its opinion that it is acceptable during the divestment process to deviate from the investment guidelines. Mr. Grady suggested the Pension Board decide both whether to approve the modification to the liquidation strategy regarding \$20 million monthly and whether Loomis can deviate from the investment guidelines of ERS's Statement of Investment Policy during the divestment process. Mr. Caprio stated that the rationale to allow Loomis to sell assets rather than utilize a transition manager is that Loomis is in a better position to liquidate its own portfolio than a transition manager.

**The Pension Board voted 7-1, with Mr. Garland dissenting, to permit Loomis to deviate from the investment guidelines of ERS's Statement of Investment Policy with respect to the average credit quality of its portfolio during the liquidation phase, but to revisit this issue monthly. Motion by Dr. Peck, seconded by Mr. Maier.**

**The Pension Board voted 6-2, with Messrs. Garland and Stuller dissenting, to accept Marquette's recommendation to first move \$20 million per month from the Loomis High Yield portfolio into the fixed income index fund instead of the JP Morgan core fixed income investment account and second to move \$20 million per month from the Core Fixed Income portfolio into the JP Morgan Fixed Income account. Motion by Mr. Maier, seconded by Ms. Bedford.**

Mr. Caprio discussed the cash sweep policy. He stated that cash was swept to a short term investment fund. It will now be part of the futures overlay program instead. In response to a question from Mr. Grady, Mr. Caprio noted that Marquette Associates will review the Statement of Investment Policy to determine whether eliminating the cash sweep policy will require a change to the Statement of Investment Policy.

**The Pension Board unanimously approved the discontinuation of the cash sweep from investment managers' portfolios to a short term investment fund. Motion by Mr. Maier, seconded by Dr. Peck.**

Mr. Caprio suggested that the Board consider approval of an RFP for core real estate. He noted that the process will take a bit longer. In response to a question from Ms. Bedford asking if there should be education regarding the asset class first and whether this was a bad time to invest, Mr. Wrubel stated that Marquette Associates does not intend to place dollars soon and Marquette Associates wants to get managers in place. In response to a question from Mr. Grady, Mr. Caprio stated that if the RFP were approved today it would probably be issued in the next three months. In response to a question from Mr. Maier, Mr. Wrubel stated that ERS would own units in a pooled real estate investment vehicle. He noted ERS would not have a separate account or own real estate directly. Mr. Maier suggested letting the Investment Committee sort out parameters of the RFP first and return with an RFP proposal to the Pension Board. Ms. Bedford agreed.

(c) Investment Committee Report

There was no Investment Committee Report because the January 4, 2010 meeting was cancelled.

5. Audit Committee Report

Mr. Stuller reported on the January 12, 2010 Audit Committee meeting.

Mr. Stuller stated that a proposal was made that Mr. Arena consider an ongoing time card split of cross charges, or a 90-day time card trial, to validate the cross



charges. The item will be reconsidered at the next Audit Committee meeting.

Mr. Stuller reported that Mr. Yerkes compared the 2009 to 2010 salaries, wages and benefits in the ERS budget.

Mr. Stuller commented that there was a discussion regarding unclaimed pension benefits. Mr. Huff explained that the Audit Committee recommended that uncashed checks will be deemed abandoned five years after the date of issue. Mr. Maier stated that this seemed like a standard practice. In response to a question from Ms Mayr, Mr. Huff noted that this policy is not memorialized in a Pension Board rule, but rather will be a direction to the County. Mr. Grady noted that there are a large number of outstanding checks dating back 15 years. He further indicated that for checks over five years old, ERS will pass them to the state Treasurer so the checks will then be off of ERS's books. Mr. Grady pointed out that the number of uncashed checks going forward will be small because of direct deposit. He stated that only about 200 people currently receive paper checks. In response to a question from Mr. Loeffel, Mr. Yerkes commented that since 1995, there are uncashed checks totaling approximately \$150,000.

The Chairman then discussed Proposed Rule 1044 regarding the signature authority of the Chair and Vice Chair. Mr. Huff noted that this authority always impliedly existed but is now being formalized. Mr. Mawicke proposed a revision to the language of the rule. He suggested changing the word "enter" to "approved" or "recommended."

**The Pension Board unanimously adopted Rule 1044 formalizing the signatory authority of the Chair and Vice Chair attached to these minutes as Exhibit A. Motion by Ms. Mayr, seconded by Mr. Maier.**

6. Administrative Matters

The Pension Board discussed additions and deletions to the full Pension Board, Audit Committee and Investment Committee agenda. The Chairman discussed the upcoming legislative update sponsored by the National Council of Public Employees Retirement Systems ("NCPERS"), in February in Washington D.C.

**The Pension Board voted 7-1, with Ms. Mayr dissenting, to approve the attendance of any interested member at the NCPERS legislative update in February 2010 in Washington D.C. Motion by Dr. Peck, seconded by Mr. Maier.**

7. RFP for Long-Short Hedged Equity Manager(s) – Selection

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to items 7 and 8

for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

**The Pension Board voted by roll call vote 8-0, to enter into closed session to discuss agenda items 7 and 8. Motion by Ms. Bedford, seconded by Mr. Garland.**

**Upon returning to open session, the Pension Board unanimously adopted the RFP panel's recommendation to allocate \$180 million to the long-short equity asset position, with half to K2 and half to ABS. Motion by Mr. Maier, seconded by Dr. Peck.**

8. RFP for U.S. Large Cap Core Equity and Core Fixed Income Index Manager(s) Selection

The Pension Board took no action on this item.

9. Disability Matters

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 9 for considering the financial, medical, social or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 9, 10, 11, 12 and 13 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

**The Pension Board voted by roll call vote 7-0, to enter into closed session to discuss agenda items 9, 10, 11, 12 and 13. Motion by Ms. Bedford, seconded by Mr. Garland.**

(a) Applications

(i) Pamela Jones, ADR

**Upon returning to open session, the Pension Board unanimously approved Ms. Jones's application for an accidental disability pension based on the Medical Board's report. Motion by Mr. Maier, seconded by Ms. Bedford.**

(b) Disability Re-Examination Project

(i) Suspension Request – Scott Radack, ADR, noncooperation

The Pension Board took no formal action on this item.

10. Prior BNYM Custodian Contract

The Pension Board took no action on this item.

11. Pending Litigation

(a) Mark Ryan, et al. v. Pension Bd.

The Pension Board took no action on this item.

12. Report on Special Investigation

The Pension Board took no action on this item.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Adjournment

The meeting adjourned at 12:05 p.m.

Submitted by Steven D. Huff,  
Secretary of the Pension Board

## **EXHIBIT A**

### **AMENDMENT TO THE RULES OF THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**

#### **RECITALS**

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").
2. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.
3. Ordinance section 201.24(8.8) provides that the Pension Board may engage all necessary services required to transact the business of the Retirement System.
4. Ordinance section 201.24(8.22) provides that the Pension Board may enter into contracts for professional services other than legal services.
5. To facilitate the formal completion of such contracts, the Pension Board desires to adopt the following rule to document that the Chairperson and Vice Chairperson of the Pension Board are authorized to execute a contract and to take any actions necessary to execute any similarly related documents on behalf of the Pension Board, provided the Pension Board previously approved the adoption of such contract at a Pension Board meeting at which a quorum was present.

#### **RESOLUTION**

Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby creates and adopts Rule 1044 to read as follows:

#### **1044. Signature Authority of Chairperson and Vice Chairperson**

The Chairperson and Vice Chairperson of the Pension Board are authorized to execute any contract previously approved by the Pension Board at a Pension Board meeting at which a quorum was present, to execute any similarly related document and to take any actions necessary to execute such documents on behalf of the Pension Board.

Effective January 20, 2010.